



AUS4REFORM PROGRAM

REPORT ON
**DEVELOPMENT COORDINATION MECHANISMS
IN KEY ECONOMIC REGIONS IN VIETNAM**

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PREFACE

Since the beginning of 1991, the idea of applying development triangles based on the superiority of geographic and economic positions to form growth poles has been kicked off in Vietnam. Recently, four key economic regions has been formed including the northern key economic region, the central key economic region, the southern key economic region, and the Mekong river delta key economic region. After more than 20 years of development, key economic regions have achieved some important achievements in growth rate, export value, state budget collection and FDI attraction, etc.

Vietnam's territory is divided into 63 provinces and cities directly under the Central Government. The regional economic space is thus fragmented and limited by administrative boundaries; a number of clusters and products with competitive advantages of the region have not been able to develop to reach a large scale enough to become a key sector and product of the region. In fact, these are competing with each other leading to segments in the sectorial value chains. In addition, there still appeared overlapping in investment, low value added investment projects and high investment norms because regions do not take advantage of "common assets". Therefore, the objectives identified for key economic regions have been almost not achieved or achieved to a limited extent in some specific regions.

One of the main causes of this situation is the ineffective and inadequate coordination of regional development. In fact, during the last two decades, the Government has identified this "bottleneck" and efforts have been made in formulating and promulgating mechanisms to improve the development coordination in key economic regions. Recently, on October 10, 2007, Prime Minister also issued decision no. 159/2007/QĐ-TTg on the regulation on coordination among ministries, agencies and localities in key economic regions. After a long time of implementation, problems of development coordination in key economic regions still exist. The coordination effectiveness in key economic regions has not been improved; this is still implemented formally and administratively. Main activities of the development coordination agencies in key economic regions are consultation but these organizations lack capacity and human resources to deal with regional issues such as master planning and management, investment, etc.

The report aims to assess the situation of development co-ordination mechanism in key economic regions in Vietnam. Good international practices and experience in regional development coordination will be discussed in order to propose solutions to enhance the effectiveness and efficiency of the development coordination mechanism in key economic regions in Vietnam.

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All remaining errors, view and opinions presented in the Report are solely of authors and may not necessarily reflecting those of Aus4Reform Program and/or CIEM.

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LIST OF ACRONYMS

AASEAN	Association of South East Asian Nations
CIEM	Central Institute for Economic Management
EUR	EURO currency
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistics Office of Vietnam
MPI	Ministry of Planning and Investment
ODA	Official Development Assistance
PPP	Public- private partnership
SMEs	Small and Medium Enterprises
USA	United States of America
UK	United Kingdom
VND	Vietnam currency

INTRODUCTION

Since the beginning of 1991, the idea of applying development triangles based on the superiority of geographic and economic positions to form growth poles has been kicked off in Vietnam. By early 1998, the Government selected a number of provinces and centrally-run cities to establish key economic regions. A key economic region is a part of the national territory that consists a number of provinces and centrally-run cities with favourable conditions and great economic potentials to play as driving forces for the development of the country. To date, four key economic regions has been formed including the northern key economic region¹, the central key economic region², the southern key economic region³ and the Mekong river delta key economic region⁴. After more than 20 years of development, key economic regions have achieved some important achievements. The growth rate was always higher than the national level, the total export value in key economic regions accounted for more than 90 percent of the total export of the country, the state budget accounted for over 89 percent of total state budget, and FDI accounted for 82 percent of the country's total FDI, etc. Some key economic regions have considered as main driving forces for the whole economy.

Vietnam's territory is divided into 63 provinces and cities directly under the Central Government, equivalent to 63 administrative units. The regional economic space is thus fragmented and limited by administrative boundaries; many clusters and products with competitive advantages of the region have not been able to develop to reach a large scale enough to become a key sector and product of the region in particular and of the economy in general. In fact, these are competing with each other leading to segments in the sectoral value chains. In addition, there still appeared overlapping in investment, low value added investment projects and high investment norms because regions do not take advantage of "common assets" on the basis of regional and inter-regional allocation, especially in seaports, airports, industrial zones, ... Therefore, the objectives identified for key economic regions have been almost not achieved or achieved to a limited extent in some specific regions.

One of the main causes of this situation is the ineffective and inadequate coordination of regional development. In fact, during the last two decades, the Government has identified this "bottleneck" and efforts have been made in formulating

and promulgating mechanisms for improving the development coordination in key economic regions. On February 18, 2004, the Prime Minister issued the Decision no. 20/2004/QĐ-TTg on the establishment of the regional development coordination organizations of key economic regions at the central level to coordinate development activities between ministries and localities with a purpose of creating the consistence in directing, organizing and implementing investment activities in order to achieve high effectiveness in socio-economic development of key economic regions. The steering committee for development coordination of key economic regions was also established under Decision no. 1022/QĐ-TTg on September 28, 2004, with the participation of the leaders of the ministries, agencies and provinces and cities under central level in key economic regions. On October 10, 2007, Prime Minister also issued Decision no.159/2007/QĐ-TTg on the regulation on coordination among ministries, agencies and localities in key economic regions. After a long time of implementation, problems of development coordination in key economic regions still exist. The coordination effectiveness in key economic regions has not been improved; this is still implemented formally and administratively. Main activities of the development coordination agencies in key economic regions are consultation but these organizations lack capacity and human resources to deal with regional issues such as master planning and management, investment, etc.

In fact, regional economic issues and regional development coordination have been addressed since the VIIIth Congress of the Party. The XIIth Congress continues to emphasize the policy that is "to focus on developing key economic regions, dynamic regions, economic zones and industrial zones; to strengthen the link between localities in the region and between regions in order to take full potentials and advantages of each region and each locality; to create space for regional development and the whole country; and overcoming duplication, fragmentation, inefficiency in the development process".

In addition, the demand for economic restructuring, including restructuring by regions, transformation of the growth model was also emphasized recently, especially in Resolution no. 05-NQ/TW of the 4th Plenum of the XIIth Congress, and Resolution no. 24/2016/QH13 of the National Assembly. These require to research mechanisms for regional economic development coordination; and cooperation among localities in the promulgation and implementation of policies in the direction of raising productivity, quality and efficiency, contributing to the restructuring and transformation of the growth model and national competitiveness.

Therefore, a study on "Development coordination mechanism in key economic regions in Vietnam" is necessary to propose mechanisms and policies for improving and promoting the effectiveness and efficiency of regional economic development coordination, contributing to the development of key economic regions, attracting and creating pervasive forces to support other regions throughout the country. Outcomes of the study will be an important input for the Central Institute for Economic Management (CIEM) to develop a Decree on the development of dynamic economic regions.

¹ The northern key economic region was established under the Prime Minister's Decision no. 747/ TTg dated September 11, 1997 with 5 provinces and cities: Hanoi, Hai Phong, Quang Ninh, Hai Duong and Hung Yen. Currently, the region has been expanded to include Vinh Phuc and Bac Ninh.

² The central key economic region was established under the Prime Minister's Decision no.1018 /1997/ QĐ-TTg dated 29 November, 1997 with 4 provinces and cities: Da Nang, Thua Thien Hue, Quang Nam and Quang Ngai. Currently, the region has been expanded to include Binh Dinh.

³ The southern key economic region was established under the Prime Minister's Decision no. 44/1998/ QĐ-TTg dated 23 February, 1998 with 4 provinces and cities: Ho Chi Minh, Dong Nai, Binh Duong and Ba ria - Vung Tau. Currently, the region has been expanded to include Tay Ninh, Binh Phuoc, Long An and Tien Giang.

⁴ The Mekong river delta key economic region was established under the Prime Minister's Decision no. 492/ QĐ-TTg dated 16 April, 2009 with 4 provinces and cities: Can Tho, An Giang, Kien Giang and Ca Mau.

I. Objectives, Approaches, Scope and Research Methods

I.1 Objectives of the study

The objectives of the study is to:

- Assess the situation of development co-ordination mechanism in key economic regions in Vietnam.
- Propose solutions to enhance the effectiveness and efficiency of the development coordination mechanism in key economic regions in Vietnam.

I.2 The approach to conduct research

The subject of the study is the development coordination mechanism in key economic regions in Vietnam. In this report, these following mechanisms are: (i) joint development coordination agencies: stipulated in Decision no. 941/QD-TTg dated 25 June 2015 on the establishment of a group to coordinate the development of key economic regions in the period of 2015-2020; (ii) personnel resources for development co-ordination: stipulated in Decision no. 2059/QD-TTg dated 24 November, 2015 on the establishment of the steering committee and key economic region councils for the period of 2015-2020; and (iii) regulations on organization and operation of development coordination agencies: stipulated in the Decision no. 2360/QD-TTg dated December 22, 2015 on the organization and operation of the development coordination agencies in key economic regions in the period of 2015-2020.

The study is implemented by applying the institutional framework on regional development coordination to assess the current status of coordination mechanism for development in key economic regions in Vietnam. That is:

- Regulations on development coordination mechanisms in key economic regions in Vietnam as well as regulations related to the focal points mentioned in Decision no. 2360/QD-TTg dated December 22, 2015 and related regulations include: (a) coordination content: that include designing and implementation of the master plan; development investment; and drafting and proposing mechanisms and policies; (b) Form of coordination; (c) Regional development co-ordination agencies; (d) Financial mechanisms to support regional development co-ordination; and (e) Database to assist in coordinating regional development.
- Mechanisms for implementation of development coordination in key economic regions in Vietnam, including financial mechanisms, selection of investment projects for key economic regions and project implementation of key economic regions;
- Relevant organizations promoting development coordination in key economic regions in Viet Nam that include the regional steering committee, the ministry coordination group, the regional council, provinces and cities and localities in the implementation of the regulation on regional development coordination.

I.3. Methodology of conducting research

The study applies following methods:

- Desk study to review the policy and legal framework related to the mechanism for development coordination in key economic regions in Vietnam and related regulations; good international practices and experience in regional development coordination.
- To conduct field trips in three key economic regions (including the southern key economic region and the central key economic region) in order to assess the situation of development coordination mechanisms in key economic regions, identify barriers and limitations in the mechanism for development coordination in key economic regions; and to gather recommendations and proposals to raise the efficiency and effectiveness of the coordination mechanism for development of key economic regions.
- Organize workshops to consult, exchange and share with experts, policymakers and relevant state agencies to complete the report.

II. Overview of the formation and expansion of key economic regions in Vietnam and their current situation of socio-economic development.

II.1. Overview of the formation and expansion of key economic regions in Vietnam

Starting from late 1997, the government selected a number of provinces and cities to form key economic regions; as a result, the first three key economic regions in Vietnam were established with 13 selected provinces and cities (occupying an area of 13.7 percent of the country's natural area), including:

- The northern key economic region comprises five provinces and centrally-run cities: Hanoi, Hai Phong, Quang Ninh, Hai Duong and Hung Yen.
- The Central Vietnam key economic region comprises four provinces and centrally-run cities: Da Nang, Thua Thien Hue, Quang Nam and Quang Ngai.
- The southern key economic region includes 4 provinces and centrally-run cities: Ho Chi Minh City, Dong Nai, Ba Ria-Vung Tau and Binh Duong.

In 2001, the 9th Party Congress launched the National Socio-Economic Development Strategy for the period of 2001-2010, which stated the regional development orientation and affirmed that *"The State promote key economic regions to play as driving forces for the country's growth"*. The socio-economic development strategy for the 2001-2010 period specifically addressed the priorities to be developed over the next 10 years in three key economic regions, namely: the northern key economic region, the central key economic region and the southern key economic region.

To concretize the regional development orientations mentioned in the strategy and important documents of the Party and the State, on August 13, 2004, the Prime Minister issued 03 Decisions, including Decision no. 145/2004/QD-TTg, Decision no. 146/2004/QD-TTg and Decision no. 148/2004/QD-TTg on main orientation for socio-economic development of key economic regions to 2010 and vision to 2020 (to

replace Decisions no. 747-TTg, Decision no. 1018/1997/QĐ-TTg and Decision no. 44/1998/QĐ-TTg); accordingly, the number of localities in the key economic region increased from 13 to 20. In Decision no. 159/2007/QĐ-TTg of the Prime Minister dated October 10, 2007 on coordination regulations among the ministries, agencies and localities in key economic regions, the number of localities in key economic regions increased from 20 to 21 (by adding Tien Giang province in the southern key economic region). Therefore, the total area of three key economic regions increased from 45,393 km² in 1998 to 71,646 km² in 2004 (equivalent 21.6% of the total natural area of the country).

Table 1 : Population and area of four key economic zones in Vietnam

Region	Area		Population (2016)	
	Total area (km ²)	%	Total population (people)	%
1. The Northern Key Economic Region (7 provinces)	15,595.5	4.7	15,737,800	16.9
2. The Central Key Economic Region (5 provinces)	27,960.6	8.4	6,459,800	6.9
3. The Southern Key Economic Region (7 provinces)	28,090.3	8.5	19,655,100	21.2
4. The Mekong River Delta Key Economic Region (4 provinces)	16,589.1	5	6,417,100	6.9

Source: *Statics Yearbook 2016*.

Most recently, on April 16, 2009, the Mekong River Delta Key Economic Region was established under Decision no. 492/2009/QĐ-TTg of the Prime Minister. According to this decision, the Mekong River Delta Key Economic Region is composed of 4 provinces and cities including Can Tho, An Giang, Kien Giang and Ca Mau. As a result, there are currently 24 provinces and cities in four key economic regions with the total area of 90,770 km², accounting for 27.42 percent of the country's area and 44.5 million people, accounting for 51.27 percent of total population.

II.2. Current situation of socio-economic development in key economic regions

II.2.1. Achievements

The development of key economic regions in Vietnam has made undeniable achievements, positively affecting the process of industrialization and modernization of the country. Specifically:

Firstly, key economic regions have been promoting their roles as economic centers of the whole territory and the whole country: The key economic regions are the places where large urban centers are located as well as domestic and international exchanges with five central cities such as Hanoi, Ho Chi Minh City, Hai Phong, Da Nang and Can Tho. Key economic regions have their own advantages of convenient infrastructure system to connect with domestic and foreign areas, including international airport system (such as Hanoi, Tan Son Nhat, Da Nang, Phu Bai, etc.) or major seaport system (Hai Phong, Cai Lan, Chan May, Thi Vai - Cai Mep, Cat Lai, etc.). The urbanization rate in the key economic region is higher than the national level, reaching 41.26 percent in 2010 while this figure for the whole country is nearly 30 percent and 46.53

percent in 2016 while this ration for the country is 34.5 percent; total urban population is equal to 70.21 percent of the urban population of the country. Thanks to the strong infrastructure and urban development, key economic regions have attracted a large number of domestic and foreign investors. Important services such as import-export services, financial services, transports, tourism, science and technology from large cities of key economic regions are spread out and supported the development of other localities in the region. A number of satellite towns around key economic regions are gradually formed and developed and thus contributing to significantly change the appearance of these satellite towns.

The key economic regions are the places where large enterprises of Vietnam are located. The total number of enterprises in key economic regions in 2015 was about 358,800 accounting for 81 percent of total enterprises in the country. The region has formed large and typical industries of the country such as mechanical, electronic and chemical industries in Ho Chi Minh City, Hanoi, Da Nang , Hai Phong, Can Tho, etc. Management staff and highly skilled workers are to be found much higher than in other regions.

The key economic regions are also the places where almost all the country's science and technology resources are concentrated. Up to now, there are 443 scientific research institutions accounting for 96 percent of the country's scientific facilities and there are about 256 training institutions, of which 103 are universities representing 58 percent of total universities in Vietnam and 78 vocational schools accounting for 43 percent of total vocational schools nationwide (CIEM, 2014).

The region is also home to most of the nation's top medical institutions with highly qualified medical staffs. By 2016, four key economic regions have had 444 hospitals accounting for 43.8 percent of the national hospitals, most of which are central hospitals with high level human resources and equipments. In these key regions, there are more than 107,165 beds equivalent to 35 percent of the country; and more than 2.4 thousand doctors accounting for about 50% of the total number of doctors in the country.

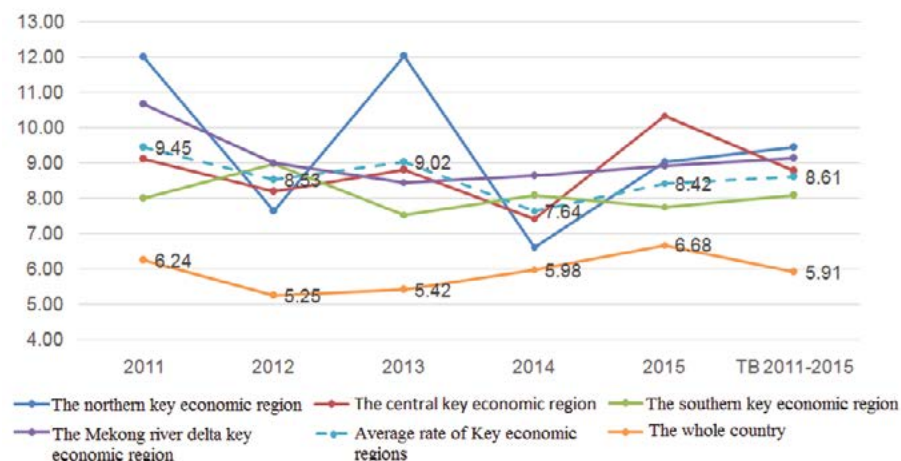
Secondly, the regions have achieved certain achievements in socio-economic development as compared to the national level. These results are reflected in main indicators such as growth rate, income per capita, budget revenue, import and export, investment capital attraction, etc.

Economic growth rate: In general, the average GDP growth rate of all key economic regions is higher than the national level as shown in Figure 1. Specifically, the average GDP growth rate of four key economic regions in the period of 2006 - 2010 and 2011 - 2015 are 10.98 percent per year and 8.68 percent per year while the national average growth are 7.01 percent⁵ and 5.9 percent respectively. In the period of 2011-2015, the region with the highest growth rate is the northern key economic regional of 9.5 percent per year while the region with the lowest growth rate is the Mekong river delta key economic region of 6.43 percent per year. In 2016, the average

⁵ <https://www.gso.gov.vn/default.aspx?tabid=418&ItemID=10879>

GDP growth rate in four key economic regions is 6.94 percent which is higher than the national level of 6.21 percent.

Figure 1 : GDP growth rate by the country and four key economic regions in 2011 - 2015



Source: Statics Yearbook 2016.

Per capita income: Thanks to the higher economic growth rate, per capita income in key economic regions is also higher than the national level. Specifically, in 2016, the per-capita monthly income (at current prices) in key economic regions was VND 3,527,000 which is equivalent to 1.16 times higher than the national level, of which the Northern Key Economic Region was VND 3,813,000 and the Southern Key Economic Region is VND 4,056,000⁶. The household rate in 2016 in key economic regions is 3.1 percent while this figure for the whole country is 5.8 percent.

Budget revenue: Total budget revenues of key economic regions also show remarkable advantages of the region. Budget revenues in key economic regions account for a very large share in the total budget revenue of the country. Specifically, the total budget revenues in key economic regions in 2010 reached VND 514,449 billion accounting for 88.6 percent of the total national budget revenue and by 2016 reached VND 941,709 billion accounting for 85.5 percent of the country. Among key economic regions, the southern key economic region has the highest proportion of budget revenues, accounting for 39.5 percent of the whole country in 2016; the northern key economic region accounted for 34.7 percent, the central economic region accounted for 9.3 percent and while the Mekong river delta key economic region accounted for 2.0 percent.

Export-import turnover: The key economic regions have contributed positively to the national export-import turnover. The total value of export and import turnover in the period of 2011-2015 in four key economic regions reached more than USD 1,164

⁶ In 2012 and 2014, monthly income per capita in key economic regions were VND 2,256,000 and VND 2,908,000 respectively while these figures for the country were VND 2,000,000 and VND 2,256,000 respectively.

billion, of which the total export value reached nearly USD 586.2 billion accounting for more than 89 percent of the total export of the country and import turnover reached 577.4 billion USD accounting for nearly 86.7% of total import turnover of the country. In 2015, the total value of export turnover of key economic regions reached nearly USD135.84 billion accounting for 89.85 percent of the whole country, of which the northern key economic region was USD 61.23 billion accounting for 40.5 percent of the country) and the southern key economic region reached USD 70.33 billion representing 46.5 percent of the country.

The attraction of investment capital: The total investment capital in the period of 2011-2015 is VND 5,483 trillion, accounting for over 36.28 percent of GDP of key economic regions while in this period, this ratio for the whole country was 31.7 percent; of which state budget investment accounted for 14.1 percent, enterprises and local residents accounted for 52.5 percent and FDI accounted for 19.7 percent of total investment. By 2015, the investment capital of key economic regions reached VND 1,212.6 trillion, accounting for over 34.9 percent of GDP of key economic regions while this ratio was 32.6 percent in the whole country, of which the state budget investment accounted for 26.97 percent, enterprises and local residents accounted for 43.94 percent and FDI accounted for 29.1 percent of total investment.

Attracting foreign direct investment capital in key economic regions: The total number of licensed projects valid until December 2016 were 20,528 accounting for 90.85 percent of the total FDI projects of the whole country and total registered FDI capital were USD 231.6 billion accounting for 78.8% of the country's total registered FDI capital valid by the end of 2016. The Northern Key Economic Region had 6,633 projects with a total registered capital of USD 73.68 billion representing 25 percent of the country. The Central Economic Region had 802 projects with a total registered capital of USD 14.18 billion equivalent to 4.82 percent of the country, the Southern Key Economic Region had 12,933 projects with total registered capital of 139.07 billion USD equivalent to 47.35 percent of the country and the Mekong River Delta Key Economic Region had 160 projects with total registered capital of USD 4,67 billion accounting for 1.6 percent of the country.

Economic structure: The economic restructuring in key economic regions is more positive than the general level of country. The economic structure of the key economic regions is shifted towards modernization with the proportion of industry and construction accounting for 48.6 percent in the period of 2011-2015; services accounted for 41.87 percent while agriculture accounted for 9.53 percent. In 2016, the economic structure changes to 44.73 percent, 46 percent and 9.27 percent for agriculture, industry and services respectively; and the economic structure of the northern key economic regions is 44.98 percent, 48.83 percent and 6.19 percent for agriculture, industry and services respectively while the southern key economic region is 48.32 percent, 44.57 percent and 7.11 percent for agriculture, industry and services respectively.

Thirdly, key economic regions are gradually developing modern socio-economic infrastructure system and basically meeting the development requirements. In

general, the socio-economic infrastructure system (roads, airports, seaports, telecommunications, irrigation, water and electricity infrastructure ...) and the interregional infrastructure network in key economic regions have been invested and improved both in quantity and quality; and gradually meet the development requirements of the region. At present, the key economic region is the hub of sea transport and aviation in the country with 6 out of 8 national seaports, accounting for 93 percent of the port's handling capacity and 100 percent of international airport with the capacity to receive 25 million visitors per year. In the period of 2011-2015, the average number of passengers transported per year in key economic regions reached 2,215.5 million accounting for 77.18 percent of the total number of passengers in the whole country. Annual average transport volume reached 566.7 million tons accounting for more than 56 percent of the total transport volume nationwide.

The key economic regions have developed dynamically in terms of telecommunication, internet, electricity and water infrastructure. Up to now, the localities in key economic regions have accessed digital information and telecommunication networks. In 2013, there were 18 percent of total households assessing the internet while this figure for the whole country was 9 percent; 21 percent of total households owned computers while this ratio for the whole country was 13 percent (MPI, 2014). In 2016, 99.86 percent of households in key economic regions used electricity for domestic use which is higher than of 98.3 percent nationwide. And 157 key industrial zones have been established with a total area of 57,000 ha, occupying 60 percent of the total number of zones and 80 percent of the total industrial areas in the country.

II.2.2. Restrictions on socio-economic development in key economic regions

Despite the achievements, after more than 20 years of establishment and development, the results achieved in key economic regions are far below the expectations. Specifically, restrictions on socio-economic development of key economic regions in Vietnam as follows:

The economic concentration level of the key economic regions is still very low: The economic concentration level often reflects the size and efficiency of economic activity of the region. This is measured by the GDP per square kilometre. Although the economic concentration level in key economic regions tends to increase over the years as Table 2 shows, compared to many countries in the world, the level of economic concentration is much lower, especially the Central and the Mekong River Delta Key Economic Regions.

Table 2 : Size and level of economic concentration in four key economic regions

Indicator	Unit	2004	2007	2010	2014	2015	2016
The Northern key economic region							
GDP	VND billion	159,111	356,289	373,418	985,162	1,079,611	1,180,274
Concentration level	VND billion /km ²	10.4	22.8	23.9	63.2	69.2	74.9
The Central key economic region							
GDP	VND billion	44,512	105,963	110,072	255,669	270,344	293,929
Concentration level	VND billion /km ²	1.6	3.8	3.93	9.1	9.7	10.5
The Southern key economic region							
GDP	VND billion	373,733	771,150	812,317	1,837,720	1,863,346	1,953,223
Concentration level	VND billion /km ²	12.3	25.2	26.5	60.1	60.9	64.0
The Mekong river delta key economic region							
GDP	VND billion	-	121,871	135,788	273,868	259,741	283,481
Concentration level	VND billion /km ²	-	7.3	8.17	16.5	15.7	17.1
Key economic regions							
GDP	VND billion	577,356	1,233,402	1,431,295	3,352,419	3,473,042	3,710,907
Concentration level	VND billion /km ²	7.8	16.6	17.77	36.9	38.3	40.9

Source: Statics Yearbook 2016.

Specifically, in 2016, the economic concentration level in the northern key economic region is about 74.9 billion VND per km² equivalent to 3.37 million USD per km², which is 7 times and 4 times higher than those in central and Mekong river delta key economic regions respectively. Even in the northern key economic region with highest economic concentration level, this level is too modest when it is compared to dynamic economic zones in USA and UK or Japan which has an economic concentration of USD 30 million per km². In Vietnam, while four key economic regions occupy 27 percent of the national area of which, the central key economic region accounts for 4.7 percent, the Central Vietnam key economic region accounts for 8.4 percent, and the southern key economic region accounts for 8.5 percent and the Mekong river delta key economic region accounts for 5 percent, the size of dynamic economic zones in some countries such as Mexico, Poland and New Zealand is about 0.1 percent for Mexico and 5 percent for Poland and New Zealand. Mexico City's economic concentration level accounts for 30 percent of their country's GDP while Poland and New Zealand levels accounting for 27 percent and 39 percent of GDP respectively (ibid., 2009). Similarly, in China, coastal provinces (mainly in three areas: Bohai Basin, Chujiang Delta and Yangtze River Delta) cover about 16 percent of the country area but accumulate to 67 percent of GDP of the whole country; Brazil's central and Southern states such as Minas Gerais, Rio de Janeiro and Sao Paulo occupy only 12 percent of the country's area but accounting for 55 percent of GDP; Cairo region occupies only 0.5 percent of

the area of the Egyptian Republic, but represents more than 50 percent of country's GDP (MPI, 2014).

The socio-economic development results achieved in key economic regions remain very low: In the period of 2011-2015, a large number of important socio-economic development indicators of key economic regions have not met their targets as Table 3 shows.

Table 3 : Socio-economic development results in comparison with their targets in key economic regions

Indicator	Key economic region	Target	Result	Reached target/Not reached target
GDP (%)	- Northern	7.5	9.5	Reached
	- Central	8	7.85	Not reached
	- Southern	8.0 - 8.5	7.36	Not reached
	- MRD	11	6.43	Not reached
Economic structure (%)	- Northern	7.7-48.3-44	6.45-45.10-48.45	Nearly reached
	- Central	15-44.5-40.5	16.88-41.12-42	Not reached
	- Southern	4-52-44	6.53-51.26-42.21	Not reached
	- MRD	23.1-33.3-43.6	29.86-25.39-44.75	Not reached
Urbanization rate (%)	- Northern	40-45	40.78	Reached
	- Central	42	38.76	Not reached
	- Southern	65	55.12	Not reached
	- MRD	40.4	35.19	Not reached
Poverty rate (%)	- Northern	2	3.07	Not reached
	- Central	2	2.61	Not reached

Source: Summary from master plans of key economic regions and calculation from Statistics Yearbook

Currently, in four key economic regions, the Central Key Economic Region and the Mekong River Delta Key Economic Region are still the poor area of the country, with the average income per capita in 2016 of only VND 2,778,000 per month and VND 2,905,000 per month respectively while this figure for the whole country is VND 3,049,000 per month. In particular, some provinces in the key economic region have very low average monthly incomes such as Quang Ngai (VND 2,149,000), Quang Nam (VND 2,188,000), Ca Mau (VND 2,364,000), Thua Thien Hue (VND 2,593,000), Binh Dinh (VND 2,596,000) and Hung Yen (VND 2,881,000). In addition, while the poverty rate in the country in 2016 was 5.8 percent, some provinces in key economic regions had very high poverty rates such as Quang Ngai (9.2 percent), Quang Nam (8.4 percent), Binh Dinh (7.5 percent), Tien Giang (5.3 percent) and Binh Phuoc (5.1 percent).

Labor productivity in key economic regions remains very low: Table 4 indicates that in the four key economic regions, labor productivity (at the comparative price) of the Central and Mekong River Delta Key Economic Regions is lower than the national level. In the Northern and Southern Key Economic Regions, although the labor productivity is higher than national level and shows an upward trend but in comparison with other ASEAN countries, labor productivity growth rate are still low. This gap shows challenges the Vietnam's economy have been facing in catching up with other neighbouring labor productivity.

Table 4 : Labor productivity in key economic regions (GDP over worker)

Region/Year	2010	2011	2012	2013	2014	2015
Labor productivity (at 2010 price) (VND million)						
The Northern key economic region	107.39	134.35	130.82	132.04	153.25	185.75
The Central key economic region	30.57	43.01	45.59	48.25	50.28	57.10
The Southern key economic region	88.69	79.99	109.87	116.51	124.07	134.06
The Mekong river delta key economic region	36.67	45.07	49.95	55.55	60.59	58.21
The whole country	49.45	51.81	52.95	54.26	57.15	61.09

Source: Calculated from Statistics Yearbook

Comparing the sectoral labor structure of some countries with similar development level to Vietnam, the labor structure in key economic regions of Vietnam is backward than average level of these countries. For example, the labor structure of agriculture, industry and services in Malaysia is 16 percent, 35 percent and 49 percent respectively while agricultural labor ratio in key economic regions of Vietnam still accounts for over 30 percent.

Although the key economic regions have made some progress in creating favourable conditions for the growth, these regions have not met the requirements to play as the driving force for the country as social economic development results show; and even several results in some key economic regions are still lower than the national level. And the two most dynamic economic regions, namely the northern and southern regions, has not had breakthroughs in development process which are reflected in the low economic concentration level, growth rate while economic restructuring are really slow.

It can be pointed out that the causes of these constraints⁷ are: (i) the economic development level of many localities is limited so that it is impossible for them to take the leading role to support the development of other provinces; (ii) the mechanisms and policies for development of the key economic region are really weak to make breakthroughs in these areas; in addition, the policy is not sufficiently implemented; (iii) a number of actors in the economy (especially local governments) are not fully aware of the development co-ordination benefits, particularly links in economic development process to take advantage of large returns to scales; (v) habits in cooperation and association of Vietnamese is not really popular.

In addition to the above reasons, there are also other important reasons for the coordination mechanism for development of key economic regions (to be analyzed in the next section of the report). And the fact that the limitations in the coordination of economic development between localities in the key economic region have left negative consequences for the economy.

⁷ Big proposals on regional development policies, MPI (2014).

Box 1: Wastefulness in public investment

Over time, the most obvious consequences of the lack in development coordination among localities in Vietnam is the wastefulness in infrastructure construction (such as seaports, airports, industrial area,...). In an economy of USD 205.4 billion in 2016, there are 100 seaports (including 20 international seaports), 22 airports (including eight international airports) and 321 industrial zones, etc. This is a redundancy, waste of resources and does not take advantages of common assets. In fact, the development of seaports, airports or industrial zones result in two serious problems: (i) the distribution of these infrastructures between regions and localities are not suitable, leading to the situation where there is deserted but others are overloaded; and (ii) due to the spread of investment capital for many projects, a number of infrastructures do not reach international standards and thus affect the national competitiveness.

Source: Nguyen Dinh Cung and Tran Thi Thu Huong (2016)

III. Assess the current status of development coordination mechanism in key economic regions in Vietnam

III.1. Achievements

III.1.1. Coordination content

Although socio-economic development master plans for the first three key economic regions to 2010, including the northern, central and southern key economic regions were approved at the end of 1997 and by the beginning of 1998⁸, development coordination contents only have been pointed out specifically by the Prime Minister's Decisions on major orientations for socio-economic development of key economic regions to 2010 and their vision 2020⁹. As a result, since 2004, the most important coordination content is the unification of development master plans of the country, regions, provinces and cities to create direct links in production, commerce and investment and providing technical assistance on human resources to meet the socio-economic development requirements of the region and to closely link socio-economic development process with environmental protection. Accordingly, the adjustment of master plans of key economic regions are carried out in a number of areas and fields including: (i) Industry; (ii) tourism and services; (iii) agriculture; (iv) infrastructure and (v) social sectors. The adjustment covers spatial planning, infrastructure planning and product planning.

These coordinated orientations either did not have sufficient resources or did not provide timely policy mechanisms for implementation (e.g., the construction of economic zone in Van Don Island, Quang Ninh, etc.), or were not appropriate (with product planning) or were too general so that these has not been transferred into specific actions. Because the regional development coordination has not been effectively implemented and in order to achieve the common goal of the central coast region and based on the central key economic region, seven central provinces with

the leader of Da Nang city in 2011 proposed 9 development coordination contents¹⁰. Development coordination contents have not been carried out simultaneously. These are implemented based on the principle of high consensus to implement first and then to draw experiences to conduct other more difficult contents. Therefore, in nine proposed coordination areas, a few number of contents have been implemented such as tourism development, human resource training and forum organization to attract investment and industrial development.

However, since 2015 Decision no. 2360/QD-TTg has been implementing, development coordination contents of key economic regions has been expanded and become more comprehensive in comparison with previous periods. The main coordination contents are:

- In designing and implementation of the master plan: in designing, coordination contents are reflected in formulation, appraisal and approval of regional master plans. Accordingly, the regional steering committees, council of key economic regions and relevant ministries, agencies and localities are consulted before these drafted master plans are submitted to the competent authorities for approval. In the implementation of the regional planning, after master plans are approved, regional councils and relevant agencies and localities will organize conferences to announce these newly regional master plans and call for investment projects to attract domestic and foreign investors to implement these master plans; mechanisms and policies are built to attract investment to implement regional master plans to link localities in the region; coordinated programs are formulated to connect development sectors and areas among different localities. In some key economic regions, as southern and the Mekong river delta regions, regional socio-economic development master plans are actively reviewed and adjusted in response to climate change.
- In development investment: regional councils and localities jointly organize conferences on investment promotion to attract foreign investment (FDI and ODA) as well as domestic investment. The main coordination areas of development investment include: inter-provincial roads, high quality training centers, vocational training schools, etc.
- In proposing development mechanisms and policies, all key economic regions actively propose mechanisms, policies and detailed lists of investment projects submitted to the central government to promulgate mechanisms and

¹⁰ (1) Redistribution of production forces and adjustment of development master plans in line with strengths of each locality; (2) Building synchronous inter-provincial and international transport infrastructure, especially road transport infrastructure; (3) establishing a unified regional economic space; (4) Linking training and human resource development; (5) Cooperation in mobilizing investment capital and developing mechanisms and policies for regional development; (6) Coordination in investment promotion, trade and tourism in the region; (7) Improving the business and investment environment as well as the regional competitiveness; (8) Building socio-economic information system; (9) Cooperation in environmental protection in responses to natural disasters and climate change.

⁸ In Decision no. 747/1997/QD-TTg, Decision no. 1018/1997/QD-TTg and Decision no. 44/1998/QD-TTg respectively.

⁹ In Decision no. 145, Decision no.146, and Decision no. 148/2004/QD-TTg dated 13 August, 2004.

policies as well as provide financial supports to formulate common assets and infrastructures for localities in key economic regions.

- In training and employment: Regional councils and localities mainly focus on supports for job services and deal with labor disputes where necessary for synchronized implementation. In addition, in the southern key economic region, regional co-ordination in high quality labor training is implemented by expert exchange and training supports.
- The regional database: Some key economic regions such as southern and the Mekong river delta regions have been planning to build a database system for regionally social and economic domains to monitor and resolve regional development coordination issues. This database contains information on policy information, large-scale investment projects, foreign investment, domestic investment and some social indicators.

In addition, depending on the particular conditions and development needs of each region, regional councils in those areas will identify more specific coordination content to address specific issues of each region. For example, the northern key economic region identifies six main areas of coordination: (i) transportation; (ii) trade and tourism; (iii) industry; (iv) agriculture; and (v) environmental protection. Accordingly, the most important priority of the region until 2020 is the development of inter-regional transport, including land, air and sea transport, with lists of inter-regional programs and projects proposed to ministries and agencies to implement to 2020 in order to implement the regional master planning; and this content accounts for 60 percent of total contents of the action plan of northern key economic region until 2020. In addition, other areas include trade and tourism for localities to develop inter-link programs to promote and trade to increase the consumption of local products and goods, especially specialty of each locality through the events of investment promotion conferences, fairs and exhibitions; or in natural resources and environment, provinces and cities in the region are to carry out some coordination activities to build land fees in adjacent areas or environmental protection in neighbouring areas. For southern key economic region, one of the main priorities is to link production with the consumption of regional products, namely calling for investment in markets and trade centers in localities; to call for invest in hi-tech agricultural conferences; products considered as local strength are also introduced to link supply and demand and the council aims to build clean food chains in pork, chicken and poultry eggs that can be traced. The fact that regional councils in key economic regions and localities in the region are increasingly expanding coordination contents and selecting feasible contents for coordination has initially brought about important results in both regional management thinking as well as social economic development of the region and the country.

Box 2: Important results resulted from expanding development coordination contents in regional management thinking and social economic development

Although the government issued the master plan of central key economic region and directed regional development coordination for a number of years but in fact there was almost no significant coordination. Only since the leaders of seven central provinces in July 2011 have voluntarily issued regional development agreement and formulated coordinating committee and especially from 2016 to implement the Resolution 87/NQ- HDV dated 16th September 2016 of central key economic region council to promote coordination in tourism development, human resource training and forum organization to attract investment and industrial development, etc, new thinking of regional management has been initially brought out.

(Report of key economic region development policy of the President of the central key economic region council in 2018).

The southern key economic region has an important and strategic role in socio-economic development of the country where favourable conditions and advantages of the country are to be found to take the leading role in industrialization and modernization process. In the process of formation and development, the southern key economic region and other key economic regions have been promoting their advantages, creating their strengths in accordance with the open economy structure, linking domestic and foreign markets; these regions not only have been creating driving forces for the rapid growth of the national economy but also contributing significantly to stabilize the macro economy and especially support socio-economic development of provinces and cities in the region. Particularly, from 2015, thanks to the expansion of coordination contents among localities in southern key economic region, these have significantly contributed to higher growth rate and living standards as well as created opportunities for local enterprises and investors more actively to implement their projects by taking comparative advantages of the region.

(Report of the key economic development of the Southern Key Economic Council in 2018).

III.1.2. Form of coordination

Development coordination in key economic regions is reflected in two forms: (i) Formal forms and (ii) Voluntary forms.

The form of official coordination is implemented in accordance with the operation and coordination regulations of the development coordinating organization of key economic regions in the period of 2015-2020 issued together with Decision no. 2360/QĐ-TTg dated December 22, 2015 by the Prime Minister to issue the development coordination mechanism in the implementation of tasks between different coordination agencies for key economic regions, including: (i) steering committee for the development of key economic regions (steering committee¹¹); (ii) key economic region councils (regional council¹²); (iii) ministerial coordination group¹³; provincial coordination group¹⁴.

¹¹ is inter-sectoral agencies with the participation of the concerned ministries to assist the Prime Minister in studying, directing, urging and coordinating the settlement of important inter-regional issues related to development coordination of key economic regions.

¹² is the connecting organization to link between the steering committee and the localities in key economic regions to direct and coordinate the regional development coordination contents.

¹³ is an organization responsible for assisting, studying and proposing the mechanisms and policies under the ministry authorities to the Minister; solutions to improve the effectiveness and efficiency of regional development coordination; to assist the Minister in directing relevant departments under the ministry to perform the tasks of development coordination in key economic region management; to coordinate with regional councils in deal with regional issues related to management scope of the ministries.

¹⁴ is an assisting organization to assist people committee and the chairman of the people committee of localities belonged to key economic regions to direct different departments to perform the tasks of development coordination in key economic regions; to propose to regional councils to promptly deal with regional cooperation issues.

The development coordination in key economic regions is implemented through the focal organization of regional councils. Accordingly, the regional Council will build and synthesize regional development plans to be submitted to regional development conferences held twice a year for approval. The implementation of annual development coordination activities is implemented by provincial coordination groups. In particular, provincial coordination groups monitor development coordination plans and propose solutions to solve the coordination problems under the role and mission of localities in key economic regions; and report to regional councils, the provincial people's councils and committees on mid-year and end-year terms for the implementation of development coordination activities of key economic regions.

Coordination in the task and mission implementation of deferent coordinating agencies for key economic regions is expressed in different forms as follows:

- Key economic regions approved regional development action plans, namely the coordination plan for the northern key economic region for the period of 2017-2020 dated December 27, 2016; Resolution no. 5026/NQ-HDV on promulgating key tasks of the southern key economic region council to focus on coordination plans in the term of 2015-2016; Resolution no. 87/NQ-HDV dated September 16, 2016 of Central Key Economic Region Council on the regional development plan in the period of 2016-2020; Resolution no. 136/NQ-HDV dated November 21, 2016 of Mekong River Delta Key Economic Region Council on regional development plan for the period of 2016 - 2020. Based on these resolutions, action plans between localities in key economic regions are issued to provide specific coordination activities. As a result, the coordination agreement in northern key economic region focus on developing the regional infrastructure system, developing supporting industries and processing industries in association with raw material areas, promoting cooperation activities in high skilled labor training, in intensive medical cooperation and disease prevention and in environmental protection, and connecting tourism development projects as well as ensure safety and security, etc. For the southern key economic region, these are cooperation agreements in five areas namely: regional master planning of the southern key economic region in period of 2016 - 2020; formulating regional social - economic databases in the 2016-2020 period; connecting transportation infrastructures in the southern key economic region in the 2016-2020 period; connecting the production and consumption of typical products of southern key economic region in the 2016-2020 period and protecting the natural resources and environment to implement the national strategy on climate change. While the Mekong River Delta Key Economic Region promulgates the coordination Agreement no. 16/TTHT-UBND dated May 09, 2015 on the regional and provincial socio-economic development plan in the Mekong River Delta Key Economic Region in the period of 2016 - 2020 with focuses on fours areas including master planning and planning activities; production development; infrastructure investment; and establishing a regional information system, the central key economic region focuses on nine

areas: investment mobilization; human resource development; manufacturing industries and technology development; traffic; travel; commerce; improving provincial competitiveness; sharing information in response to climate change.

- Regional councils organize periodic meetings with participation of localities in the region every 6 months to issue regional coordination programs.
- Annual collaborative forums are organized to attract a wide variety of contributions and comments from managers, investors, specialists, researchers and enterprises in regional development coordination activities. Most recently, on June 17, 2018, "Hanoi 2018 - Cooperation in Investment and Development" forum was held to promote domestic and foreign investment by introducing investment opportunities in Hanoi and other provinces and cities in northern key economic region. In Southern Key Economic Region, on December 23, 2016, the Southern Key Economic Region Council co-ordinated with the Central Party Economic Department to hold a workshop on "Development mechanisms and policies for the key economic region" to collect solutions and recommendations to strengthen the effectiveness and feasibility of regional development mechanisms and policies. After the workshop, the regional council issued Decision no. 330/QD-UBND dated January 30, 2018 to approve funding for the implementation of six socio-economic development big proposals¹⁵ in Southern Key Economic Region. Currently these proposals are being studied and it is expected that the recommendations and outputs from these proposals will be applied from the beginning of 2019. The Central Key Economic Region also organized workshop on "Linking to build logistics system and center in central key economic region" in September 2016 in order to consult experts, managers, enterprises and investors for orientations and solutions to exploit the potentials and advantages of the logistics service in the central key economic region. Recently, in May, 2018, the Central Economic Region Council held a meeting to link the development of economic zones and industrial zones in the region to propose the direction of assigning key sectors into different economic zones and industrial zones as well as propose mechanisms and policies to attract investment in coastal economic zones and industrial parks to create stronger steps in regional cooperation. In the Mekong River Delta Key Economic Region, a large number of provincial departments (in Can Tho, An Giang, Kien Giang and Ca Mau) actively cooperated to organize seminars, fairs, exhibitions and propaganda events to promote the image, potential and demand of each province in the region.

¹⁵ (1) Solutions for high quality human development resources for the southern key economic region; (2) Mechanisms and policies to generate investment capital for linking transport infrastructure in the southern key economic region; (3) institutional strengthening to promote linkages in the southern key economic region; (4) Solutions to create capital for the development of southern key economic region; (5) Building supply chains of foodstuff to link producers and sellers in the direction of food safety between Ho Chi Minh City and provinces in the southern key economic region; (6) Cooperation in sustainable development of water resources and environment in the southern key economic region.

By recognizing the importance of coordination, especially in economic development, voluntary development coordination form between localities inside and outside key economic regions in Vietnam tends to widen. For example, in 2011, Da Nang initiated to organize a scientific conference on “Development coordination in seven central coastal provinces”, and outputs of the workshop were voluntary agreements signed by seven central coastal provinces on “Commitment to development coordination in seven central coastal provinces”. By the end of 2012, two more provinces - Ninh Thuan and Binh Thuan - were added as members of central coastal regions. In particular, to recognize the importance of coordination in cluster linkage development and promote inter-provincial coordination, central coastal region agreed to select Truong Hai Automobile Group as the leading enterprise to examine the development of automotive industry cluster of the region.

At the request of the provinces in the Mekong Rive Delta, the Prime Minister issued Decision no. 388/QD-TTg dated 25 March 2010 on the organization of the Mekong River Delta Economic Cooperation Forum (held annually and from 2016 twice a year). The forum is an open event to improve the link among 13 provinces and cities in the Mekong River Delta, between the Mekong region and ministries and other localities in the country and connect the Mekong region with international organizations. The topics discussed at forum are practical issues that attracted great interest of localities in the region. Up to now, 8 forums were successfully organized to propose a number of mechanisms and policies to promote the coordination among localities in the region, between the Mekong region and big cities like Hanoi and Ho Chi Minh City as well as other regions in the country; and connect with the business community, domestically and internationally, for regional development purposes and adaptation to climate change of the Mekong River Delta.

In the remaining key economic regions, however, voluntary coordination forms do not attract the participation of a large number of localities and are not implemented in a large scale as in Mekong River Delta and the central key economic regions with smaller scales, mostly with two or three localities. The major coordination trend is the bilateral cooperation, especially in tourism development linkages, relocation of industrial production units from the city to the industrial zones of neighbouring provinces in the region to reduce environmental pollution in big cities, or high-tech agricultural production methods,...

III.1.3. Regional development co-ordination organization

The regional development coordination organization of key economic regions is initially formed on the basis of the Prime Minister’s Decision no. 20/2004/QD-TTg dated February 18, 2004 on the establishment of the development coordination organization (hereinafter referred collectively to as decision 20) and replaced by Decision no. 941/QD-TTg dated May 26, 2015 on the establishment of the coordination development organization of key economic regions in the period of 2015-2020 (collectively referred to Decision no. 941) and Decision no. 2059/QD-TTg dated 24/11/2015 on the establishment of steering committee and regional councils of key economic regions for the period of 2015-2020.

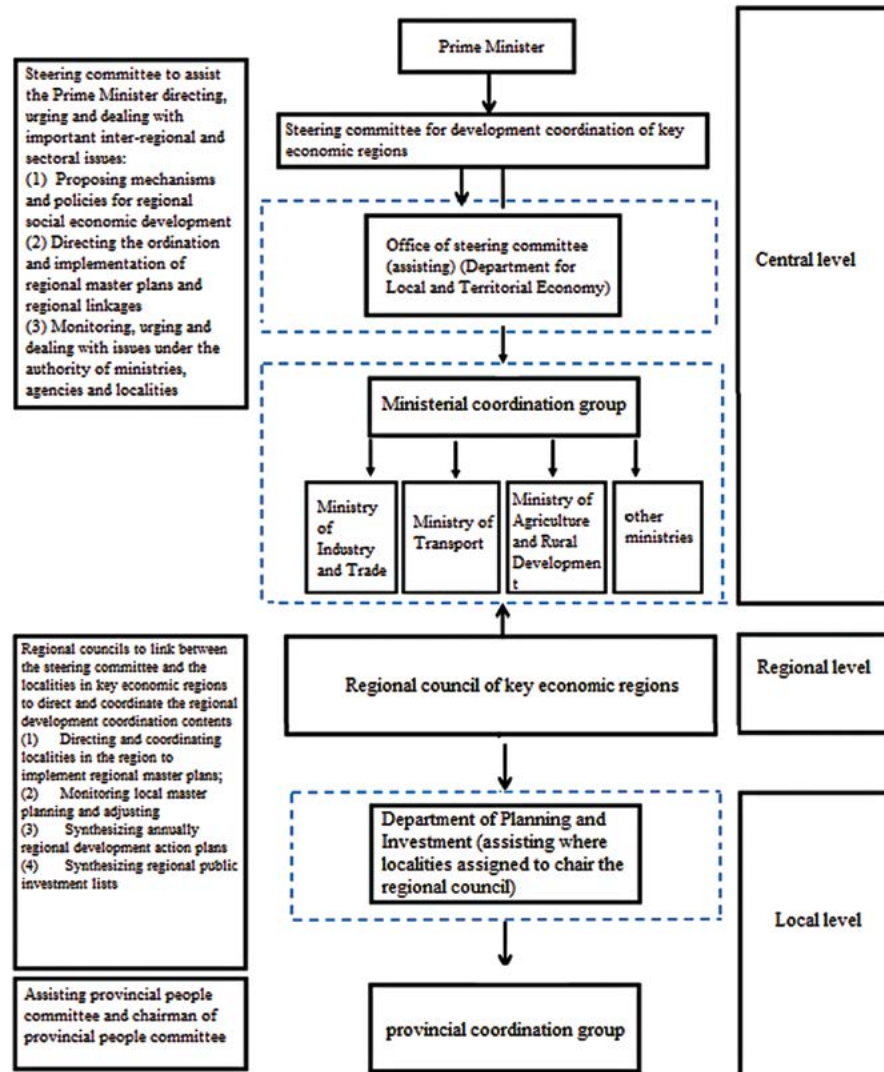
The purpose of establishing regional development organizations for key economic regions is to coordinate development activities among ministries, agencies and localities in order to create the unity in direction, implementation and utilization of investment projects in order to achieve high socio-economic effectiveness in key economic regions.

Functions and tasks of regional development organizations for key economic regions: according to Decision no. 20, development coordination organization of key economic regions mainly plays as focal points to direct the implementation of mechanisms and policies for key economic regions and dealing with daily issues affairs if necessary. In order to enhance and specify tasks of regional development organizations for key economic regions, key economic councils have been established with the technical assistance from provincial coordination groups. However, the authority of the entire regional development organizations of key economic regions, in fact, has not changed fundamentally. Specifically, the task of the steering committee is mainly to propose mechanisms, policies and to monitor the implementation of inter-regional issues related to regional development coordination contents of key economic regions. The mission of regional councils is mainly to coordinate the implementation of regional master plans as well as monitor the adjusting process of regional and local master planning.

The organizational structure of regional development organizations for key economic regions and budget: according to Decision no. 20, the structure and apparatus of regional development organizations for key economic regions includes the steering committee for development coordination in key economic regions (referred to as steering committee) at the central level and the coordination groups at ministries and localities (hereinafter referred to as coordination groups). There are some new points defined in Decision no. 941/QD-TTg (to replace Decision no. 20) as follows:

- To supplement the regional council of key economic regions with functions of directing and coordinating regional development coordination contents including the chairman of provincial people’s committees of provinces and cities in key economic regions while steering committees and local coordination groups are still kept. The President of the regional council is elected for a two-year term.

Figure 2 : Organizational structure of regional development organizations for key economic regions



Source: Summary from master plans of key economic regions and calculation from Statistics Yearbook

- To form assistance teams of regional councils: directly under the Provincial Department of Planning and Investment (where the provinces or cities assigned to chair the regional council).
- To supplement the operating budget for regional councils (included in the annual budget of provinces/cities to play as presidents of regional council chair) and provincial coordination groups.
- Steering committee members consists of Deputy Prime Minister (Head of

committee), Minister of Planning and Investment (Vice Head) and other members equivalent to vice ministers in 9 ministries and the government office¹⁶; and presidents of regional council. According to Decision no. 941/QD-TTg, vice chairman of provincial people committee are no longer members of the steering committee.

- To define clearly key coordination contents in master planning, development investment, mechanism and policy designs, human resource development and building regional database.

III.1.4. Financial mechanisms to support regional development co-ordination

To support regional development coordination, a number of regulations on financial mechanisms have been initially established. For instance, the State Budget Law (2015) mentioned central budget expenditure tasks for interregional development projects (Article 36). Previously, the Government also issued Decree no. 37/2013/ND-CP dated April 22, 2013 to amend and supplement some articles of Decree no.138/2007/ND-CP on the organization and operation of the local development fund. This fund is authorized to act as a coordinator for syndicated loans or co-financed with other local development investment funds, credit institutions and other organizations to lend for projects to support regional socio-economic development (Item 6, Article 1). On February 25, 2014, the Ministry of Finance also issued Circular no. 28/2014/TT-BTC on guiding the financial management of the local development fund. These documents have provided a legal framework for local authorities to promote regional budget expenditures.

There is another financial mechanism which does not directly provide financial supports for the key economic region but covers all localities in the Mekong region so that all provinces and cities in the Mekong River Delta economic region are also the beneficiary. This is Decision no. 593/QD-TTg of the Prime Minister dated 06 April 2016 promulgating piloting regulations on socio-economic development linkages of the Mekong River Delta region in the period of 2016-2020. Development coordination projects aim to utilize potentials and advantages of the Mekong River Delta and each locality in the region in order to mobilize and use efficiently different resources for social economic development with focuses on large scale agricultural and fishery production. In addition, these supports aim to enhance the competitiveness of the region, gradually improve the living standard and protect the ecological environment. To facilitate the development coordination, the central budget will support at least 10 percent of capital expenditures of total midterm public investment expenditure in the period of 2016 - 2020 allocated to localities in the region to implement regional development co-ordination projects with the priority given to the reciprocal capital from the state budget for the implementation of projects and to PPP projects.

In the form of voluntary coordination, in the central coast region, in order to fund activities of regional coordination group, studies of regional consultative group and

¹⁶ Previously in Decision no. 20/2004/QD-TTg with participation of 20 ministries and agencies .

relevant activities, the fund for regional development coordination is established. The contribution is from localities in the region, of which localities which transferred their budget to the central budget contribute VND 500 million per year while others contribute VND 200 million. In addition, the fund also received the support from the Vietnam Investment and Development (BIDV) and other local organizations and businesses.

III.1.5. Information to support regional development coordination

Regional councils have paid attention to establish key economic region database as these are included in the regional action plan for the period of 2016-2020. For example, from mid-2017, a regional coordination group was formed in southern key economic region to formulate a coordination program in order to build a common social economic database for the region. For northern key economic region, regional database development content is also included in regional development plans in the 2017-2020 period.

At present, Mekong River Delta Key Economic Region is the first key economic region which has promulgated the regional database at Decision no. 36/QD-HDVDBSCL dated August 29, 2017 with the integration of four localities' data and information in the region including geographical, socio-economic and environmental data extracted from provincial statistical office's yearbooks and supporting policies and procedures for investment implementation as well as a list of projects calling for investment in the region.

Although an official database for the Central Key Economic Region has not been established, this can be extracted from the central coastal region database, which covers all localities in central key economic region and is separated for each province and city. The database includes regional statistics (population, area, labor, national accounts, state budget, economic sectors ...) and socio-economic data including master plans and development orientations; training and vocation; economic zones and industrial zones; tourism and investment promotion.

III.2. Problems and limitations

III.2.1. Contents of coordination:

The contents and programs of development coordination in key economic regions are not strategic. The survey report in 2012 of Vu Thanh Tu Anh et al in "Mekong River Delta: Linkage to strengthen competitiveness and sustainable development" shows that **provinces in the Mekong River Delta Region have still been interested in collaborating with Ho Chi Minh City, even more than collaborating with other provinces in the region** due to "*the economic structure and comparative advantages of Ho Chi Minh City is different from the provinces in the Mekong River Delta Region, therefore the collaboration has not had overlapping and duplication... and all provinces in the Mekong River Delta Region suppose that the collaboration with a rich province (Ho Chi Minh City) brings benefits easily (due to down-flow benefit); the collaboration with the poorer provinces is not beneficial (the benefits do not flow back); and the collaboration with provinces at same*

level may bring nothing (because it may lead to competitive position, easier than collaboration)". Therefore, although there are a lot of contents and programs of development coordination among provinces in key economic regions on wide scope, they are heavily political rather than economic. Even though coordination contents among provinces in region are established, the collaboration has been only bilateral, mainly among neighbouring provinces on wide scope, the competitive advantages among the provinces in the region and in the whole country have not been promoted.

Box 3: Strategic limitations in regional development coordination

Regarding activities for common development coordination, the contents of economic collaboration among provinces have been relatively simple, mainly carried out on the small scale, politics between enterprises and neighboring provinces on the implementation of related programs and projects. The contents of economic development coordination among provinces have not been based on the specialization of production or division of labor in the value chain, in other word, have not based on the practical requirement of collaboration in terms of operation of the market mechanism.

(Report on the implementation of the development policy for key economic regions of Thua Thien Hue in 2018)

Intra-regional and inter-regional development coordination has been limited: most development coordination programs among provinces in region have taken place on the basis of bilateral cooperation (mainly among neighbouring provinces). There are many contents of collaboration on wide scope, however they have not ensured the overall development when participating in the regional development collaboration; have not promoted the competitive advantages among the provinces in the region and the whole country. Regional collaboration has been heavily political rather than economic, more subjective rather than objective and more formal rather than substantial. Provinces tend to prefer collaborating with rich provinces to collaborating with poorer provinces or provinces at same level (because it may lead to competitive position, easier than collaboration). Therefore, even though provinces concern to collaborate with big cities which play the leading role as the regional development centers, these collaboration contents are political and separate; have not created a regional linkage. Considering the provincial comparative advantages to identify the priority and focused regional investment projects has been limited. Provinces has implemented calling for investment and investment promotion separately, therefore the efficiency has not been high.

(Report on the implementation of the development policy for key economic regions of Quang Ninh in 2018)

Regarding to building regional master plans, the common shortcoming of all plans is limited quality because most regional master plans are often built when the sectoral and provincial master plans are completed, then regional master plans are just a synthesis of sectoral and provincial master plan; provincial master plans have common limitations as they are "miniature" plan of the country, tend to develop multi-sectorally but do not clarify provincial characteristics and strengths. These plans are built without the regional coordination, meanwhile, all regional master plans have been built later. Therefore, regional master plans do not show the binding role of intra-regional collaboration and follow in the model of spreading development with certain trends on economic structure. In the current context, this problem is very serious because most regional master plans do not have enough budget for the implementation.

The limited quality of the regional master plans is shown through the overlap, lack of synchronism and long-term vision even in the first step of implementation. It has the big gap between regional master plans and actual implementation, therefore the

master plans have to be constantly adjusted and supplemented. For example, according to the Prime Minister's Decision no. 2190/2009/QĐ-TTg dated December 24, 2009 approving the master plan on development of Vietnam's seaport system through 2020 with orientation toward 2030, the Mekong River Delta Region will have 14 seaports and 21 general wharf areas. However, after less than two years, on 3/8/2011, the Ministry of Transport issued Decision no. 1746/QĐ-BGTVT approving the detailed master plan on the seaport group in the Mekong River Delta (Group 6) through 2020 with orientation toward 2030, the number of general wharf areas increased to 27 areas. Therefore, the master plans are regularly adjusted and supplemented, which leads to lose their stability which is a basic characteristic of the master plan.

Regarding to organization and implementation of regional development master plans of key economic regions, the continuous scale expansion has broken the initial master plan of key economic region. In the first period from 1997 to 2004, Vietnam formed three key economic regions with 13 selected provinces covering an area of 13.7 percent of the country's natural area; accounting for 27.4 percent of the country's population, 48.4 percent of the national GDP at current prices, 72.9 percent of total national budget revenue and FDI accounts for 84 percent of the country. On 13 August 2004, the Prime Minister issued 3 Decisions namely Decision no. 145/2004/QĐ-TTg, Decision No.146/2004/QĐ-TTg and Decision No.148/2004/QĐ-TTg on major orientations for socio-economic development of the Vietnam key economic regions through 2010, with orientation toward 2020 (replacing Decision no.747-TTg, Decision no.1018/1997/QĐ-TTg and Decision no.44/1998/QĐ-TTg). According to these decisions, the number of provinces in key economic regions increased from 13 to 20. By Decision no. 159/2007/QĐ-TTg of the Prime Minister dated 10/10/2007, promulgating the regulation on coordination among ministries, agencies and localities in key economic regions, the number of provinces in key economic regions increased from 20 to 21 (added Tien Giang to the southern key economic region). On April 16, 2009, the Mekong River Delta Key Economic Region was established under Decision no.492/2009/QĐ-TTg of the Prime Minister. Since 2009, Vietnam has four key economic regions, of which 24 selected provinces and cities are centrally managed. **The continuous expansion of key economic region scale without effective considerations broke the initial master plan of key economic regions, reduced the attractiveness from the viewpoint of investors, and weakened the ability to carry out the role of a lead and breakthrough region for economic development in the country.** Some additional provinces into the key economic regions have economic condition which is lower than the national average. For example: (i) in Northern Key Economic Region: GDP and budget revenue of Vinh Phuc and Bac Ninh reached only respectively 58.4 percent, 15,6 percent; and 54.8 percent, 13,8 percent compared to the national average; (ii) in the Central Key Economic Region: GDP and budget revenue of Binh Dinh reached only respectively 67.8 percent and 29.6 percent compared to the national average; (iii) in the Southern Key Economic Region: GDP and budget revenue of Tay Ninh, Binh Phuoc and Long An reached only respectively 67.4 percent, 31.5 percent; 40.3 percent, 22.9 percent; and 75.8 percent, 19.4 percent compared to the national average. Besides, 11 out of 24 provinces in key economic regions still receive

regularly revenues transferred from the central budget. In addition, in the process of implementation, the conflict between master plans has significantly restrict the development of key economic regions. For example, according to the master plan on development of Vietnam's seaport system through 2020 with orientations toward 2030, approved by the Prime Minister's Decision no. 2190/QĐ-TTg dated 24/12/2009, seaport capacity in Ho Chi Minh City is forecasted to reach 53 - 62.5 million tons per year by 2015 and 80 - 90 million tons per year by 2020. However, Decision no. 24/QĐ-TTg of Prime Minister dated 06/01/2010 approving the construction master plan of Ho Chi Minh city determines the total seaport capacity of 76 million tons in 2010 (close to the current number) and 200 million tons per year by 2020. The conflict in the development plan inevitably leads to conflicts in investment decision making. As a result, the Ho Chi Minh city and the southern key economic region have to take the consequence when deciding to invest in plan-conflicted area.

Regarding to proposing the implementation of regional investment projects, item 2, article 4 of Decision no.2360/QĐ-TTg issued by the Prime Minister dated 22/12/2015 stipulates the major fields for coordination in development investment in order to develop key economic regions. However, it has not had a set of criteria as a basic for regional councils and provinces to formulate, propose and select regional development projects of key economic regions.

Currently, there is only one related regulation which is Decision no. 625/QĐ-BKHDT dated 5/5/2017 of the Minister of Planning and Investment, promulgating the set of criteria for identifying collaboration projects of the Mekong River Delta Region in the period of 2016-2020 in order to implement the Prime Minister's Decision no. 593/QĐ-TTg on piloting socio-economic development coordination within Mekong river delta region in the period of 2016-2020. In fact, these regulations have not been applied because of unclear contents and criterias. For example, it is difficult to evaluate and show the impact of a provincial project on other provinces or whether the Mekong River Delta Plan is a criteria to identify an inter-regional project or not when the plan has not been approved. Therefore, the Ministry of Planning and Investment currently has been developing a guideline for the implementation of a set of criteria to identify regional collaboration projects in the Mekong River Delta. This guideline will support provinces to select the prioritized regional collaboration investment projects.

In fact, even the regions have opportunity to propose the prioritized development collaboration projects to solve regional common problems, this project is not concerned and implemented. For example, waste has been a debatable problem in many provinces and cities in Vietnam, including the Mekong River Delta. This is less attractive investment sector which is difficult to attract investors while provincial capacity has been limited and waste treatment becomes a burden on the provincial budget. Even it has regional waste treatment planning, the implementation has been slow with a lot of problems. Decision no. 1873/QĐ-TTg dated 11/10/2010 of the Prime Minister approving the plan on building solid waste treatment facilities in the Mekong River Delta Key Economic Region through 2020 has set the target that that by 2015 and 2020, 90 percent and 100 percent of solid waste generated

in urban centres and industrial parks in the Mekong River Delta Key Economic Region (includes Can Tho, An Giang, Kien Giang and Ca Mau) will be collected and treated. However, currently, Can Tho and An Giang have not implemented any waste treatment projects, Kien Giang just deployed one of four plants as identified in the master plan, Ca Mau's waste treatment plant just treats only about 140 tons of waste per day while the estimated volume of solid waste in these 4 provinces is about 5,000 tons per day and the total forecast volume of solid waste will be about 7,550 tons per day by 2020. This issue is very pressing and difficult. Although waste treatment is defined as the regional common pressing demand, in the list of priority projects of the Mekong Delta key economic region's council by 2018, the waste treatment project has not been included in the list of projects calling for investment or in the prioritized list of allocating investment capital from the budget.

Regarding to proposing regional policies, currently, key economic regions have not studied and proposed to issue powerful and outstanding regulations only applied for key economic regions to develop as a leading regions which will spread over other regions. Since its establishment, the most powerful legal documents applied for key economic regions have been decisions of the Prime Minister (for example, decisions approving the master plan on socio-economic development; approving the adjusted master plan on transport development; approving a master plan for culture, sports and tourism development; establishing development coordination organizations of key economic regions, etc.) and circulars of Ministries while specific policies for some provinces in key economic regions are under higher level of legal documents such as the National Assembly's Resolution or the Government's Decree¹⁷. The premise of building mechanisms and policies for key economic regions has been low (under Prime Minister's decisions) while the operation of the key economic regions has been related to many higher level of legal documents (such as the Constitution, Laws, ...) in many different fields (organizational structure, budget, investment, land, construction, etc.). This problem has limited the development of key economic regions as a leading regions in national economic development.

In the regional allocation policy, the "overlapping" where a province is included in different regions and the current situation that a province is under the direction of various regional master plans has not been studied and proposed to address. For example, in seven provinces in the Northern Key Economic Region, five provinces are in the capital region (under the master plan through 2030) and two provinces are in the northern coastal region (under the master plan through 2020). Because a province can be included in different regions and be adjusted by different policies, it is difficult for this province to implement effectively all coordination contents in regional development.

III.2.2. Form of coordination

In the official form of development coordination, although the provisions on

¹⁷ Some big cities (such as Ho Chi Minh, Ha Noi, Da Nang and Hai Phong) have specific mechanisms and policies under Government decrees and the National Assembly's resolutions.

coordination in the implementation of tasks among development coordination organizations of key economic regions have been strict, the awareness of compliance in the implementation has been low which significantly influenced the quality of collaboration. In particular, the regional council only has conferences twice a year in order to pass the regional important decisions and as required by regulations, the chairmen of the provincial and municipal People's Committees who are members of the regional council have to attend these two conferences. However, according to provincial report of the regional councils in 2018, at a number of conferences, a few chairmen did not attend the periodic conferences; in some cases, leaders of provincial departments were sent to attend the conferences instead. This affects the quality of commitments adopted in the conferences and the quality of implementation of regional coordination plans. This is shown in the provincial proposals to improve the collaboration of regional development.

The conferences of key economic regions should involve the leaders of the provinces such as the chairmen of the provincial People's Committees so that the collaboration among the provinces and cities in the region is favourable and effective.

(Report on the implementation of the development policy for key economic regions of Vinh Phuc in 2018)

Outcomes of the coordination and interaction between regional coordination organizations are the resolution, action plan for regional development coordination and forums to share experiences on regional collaboration but they have been formality and lacked constraints in the implementation to achieve regional common interests. After each conference, the important issues of regional coordination are collaboration contents, methods and responsibilities of all the parties in the regional development collaboration; however, they are not clearly defined and included in the minute of the conferences. The number of collaboration agreements between provinces in key economic regions has been increasing and the scope of collaboration has been expanded. However, these agreements have not listed constraints on the responsibility of each province in the implementation which lead to the implementation limitations. This is included in the report of the Northern Key Economic Region's Council, which stated that agreements between provinces are in the region have been formality and lacked the enforcement conditions which are effective mechanisms, constraints between provinces to implement regional collaboration commitments. The regional and nation common interests have been hardly achieved. In fact, there is only one method to measure economic achievements in a province, which is economic growth rate rather than the quality of economic growth. **This is also the reason leading to the reduction of provincial motivation and the obstruction of regional collaboration.** In order to have a high GRDP growth rate, each province will seek to maximize its GRDP growth rate regardless of costs affected other provinces. One of the simplest methods to achieve the GRDP growth goal is to increase the investment from the central budget. This is reflected through the over-spending of provinces up to 54 percent over the period of 2005-2013. Because each province competes with each other drastically

on the growth rate and resource mobilization, the investment collaboration between provinces is often loose, and as a result, public investment is always overlapping and ineffective. The high level of competition among provinces leads to the fact that each province is only interested in their economic activities in their administrative territory and “ignores” the spill over effects and the aggregate effect.

Regarding to the form of voluntary regional development coordination, although it is promoted in some areas, it is mainly concentrated in a number of fields such as tourism exploitation, agricultural development and some small collaborative projects. Fields of development collaboration which are more strategic such as the development of industrial zone networks, transport networks, investment attraction and management in general and especially FDI, solving pollution problems, etc. have not been concerned. Similarly, the main activities of the development collaboration have been still simple, including visits, information sharing or signing collaboration contracts; however they have not actually developed into specific and practical collaboration activities. Therefore, a large number of collaboration agreements have implemented very limited, even only remained on the papers.

III.2.3. Regional development coordination organization

The regional steering committee was established under the Prime Minister’s Decision no. 2059/QĐ-TTg dated 24/11/2015. However, currently, after nearly 3 years of the operation of the 13th Government, the Regional Steering Committee has not yet been completed¹⁸. After the Deputy Prime Minister Hoang Trung Hai - Chairman of the Regional Steering Committee for the development coordination of key economic regions was mobilized to hold the position of Communist Secretary of the Party Committee in Ha Noi, the Regional Steering Committee has not had any Chairman. This affects the activities of the Steering Committee and the key economic region’s Council. Since the Steering Committee was established, the periodic conferences has not organized as prescribed so far. In the current context, the tasks and powers of the Steering Committee are just carrying out the researches and providing proposals for the Prime Minister to decide issues related to regional development coordination while other regional issues such as investment support are under the legal regulations and decisions of the National Assembly. For example, the support identified in Decision no. 593/QĐ-TTg must follow the Public Investment Law, which has affected the timeliness and regularity in the direction of inter-regional issues.

With the current tasks and powers, the regional council only monitors and urges the implementation of regional coordination activities and cannot direct the regional development collaboration because the Regional Council does not have power to build the directions, strategy, planning and special policies for the whole region. The Regional Council operates on the principle of consensus; the responsibilities of the Chairman of the Regional Council has been not specified. The Chairman position

has been alternate, therefore, this has not promoted the responsibility of the head as the regional representative to collaborate with relevant ministries and agencies to implement the regional collaboration. Therefore, the Regional Council and the Chairman of the Regional Council cannot undertake the task of executing and implementing effectively regional development coordination.

Although the development coordination organization of key economic regions have been formed at both central and local levels, they operate mainly as part-time works. The organizational structure has not had the consultants, experts and regular collaborators to advise on the contents related to the regional common operation. Therefore, the main activities of the coordination organization are to collect information and report periodically to their superiors. The collaboration organization has not been very active in proposing solutions to address urgent and pressing issues in each province and the whole region. The state management agencies rarely invite the important subjects such as enterprises, social organizations, etc. to participate and collaborate in the process of building or reviewing regional development policies, master planning and plans. Government’s initiatives on the development of economic zones in key economic regions without the participation of this subjects are typical examples of the failure. For example, the recent development shows that most of the economic zones in the central key economic region do not fully develop the functional subdivisions¹⁹. According to the Steering Committee of the Central Key Economic Region, one of the important reasons leading to this situation is that the process of proposing the construction of these economic zones did not consult the enterprises in the region who are directly involved in filling economic zones. Therefore, there is strong competition because of overlapping functions between the economic zones of neighboring provinces. The fill rate does not meet the target.

The development coordination organization of key economic regions has not had actual power: in fact, the main task of the Steering Committee is only to advise the Prime Minister and with the proposals related to different sectors, the Prime Minister will not make the decision and will assign ministries and agencies to consider and handle. Ministries and agencies evaluate these proposals on the basis of the current legal provisions, however, currently expenditure tasks has not assigned for regional level so that most of the proposals have not been resolved. Some proposals related to inter-regional content may be integrated into development plans of ministries and agencies but they are not implemented in the context of very limited public resources. For example, National Highway of 40B connecting Da Nang and Quang Nam through Quang Nam province has been seriously degraded, causing difficulties for local people; the Central Key Economic Region’s Council and Quang Nam’s authority proposed to the Government to be assigned the task of repairing and upgrading but this proposal was not approved because this project is under the central management, not under the regional and provincial management while the Central Government has not had sufficient funds to perform the Central Government’s tasks.

¹⁸ Head of Regional Steering Committee and some members have retired or moved to other position.

¹⁹ Urban areas; Tourist area; Industrial parks; Seaports; Non-tariff area

III.2.4. Financial mechanisms to support regional development coordination

Financial instruments to support the regional development coordination have been inefficient. Although there are mechanisms for local development funds, a few provinces can allocate budget to these funds. In addition, if the provincial budget is allocated to the fund, the capital is limited and cannot meet the provincial demands; as a result, it is difficult to invest in regional socio-economic development projects.

For financial supports for the Mekong River Delta Region under Decision no. 593/QĐ-TTg, the central budget will support pilot projects of regional development coordination about VND 5,000 billion equivalent to 10 percent of the total medium-term public investment for the Mekong River Delta Region as stipulated in Resolution no. 26/2016/QH14 dated 10/11/2016 of the National Assembly on medium-term public investment plan for the period of 2016-2020. However, after more than half of the pilot time, this financial support has not yet been approved.

The biggest constraints in financial supports for regional development coordination is the lack of regulations on regional revenue and expenditure. Law on Organizing the Local Government in 2015 defines the tasks of local government of rural areas in Article 17 and of urban areas in Article 38. The general tasks of the provincial and municipal administrations are for social economic development of localities. To implement this, the People's Councils of provinces and cities are responsible for approving provincial socio-economic development plans with specific development targets and the provincial People's Committees shall have to promulgate solutions and implement these to achieve the targets. To carry out their tasks, the provincial and municipal governments are assigned the responsibility to manage the revenue sources and expenditure tasks in relevance with provisions defined in the Law on State Budget in 2015. At the central level, the National Assembly decides to allocate budget for each major project at the ministerial level and the allocation is table for three-year period. Because regional development coordination apparatus does not have revenue sources and the power to allocate resources for regional projects, the regional organization mainly provide major development orientation in the region while each province has the power to control these major orientations by self-allocating budget; similarly, ministries also can decide the other orientations which is different from regional proposals with their own budget. As a result, regional development orientations proposed by the Regional Council is not feasible because regional council does not have revenue sources and expenditure tasks to implement regional development initiatives and projects. This is the biggest bottleneck in the current regional institutions that has not encouraged and promoted the regional development coordination to solve regional problems.

III.2.5. Information to support regional development coordination

Despite the fact that regional databases has been included in the regional development plans, currently in the Northern and Southern Key Economic Regions, regional databases have not been issued. For the Mekong River Delta Key Economic Region, although regional database is issued, the information is not sufficient to monitor the objectives identified in the regional action plan because the database

does not provide information on the list of development coordination projects for the period of 2016-2020 and the number of projects implemented when the database is issued²⁰ as well as collaboration contents on human resource training²¹. In addition, the database of the Central Key Economic Region only updated until 2015. It can be said that the key economic region's databases does not meet the requirements for planning and monitoring the implementation of regional development coordination plans.

IV. Experience of effective regional coordination mechanisms in Germany

The experience of Germany in the development and implementation of regional coordination mechanisms has been presented from the conceptualization, the need of regional development coordination and regional development coordination mechanisms including objectives, forms and instruments for development coordination and experiences which should be considered for Vietnam to apply.

IV.1. Concept of region

“Region” is a common concept in practice, but different branches of science have different interpretations for the concept of the region: geography considers “region” as a geographic unit on the surface of the earth; economics considers “region” as a relatively complete economic unit in terms of economic manners; politicians often consider “region” as an administrative units performing administrative management; the sociologist considers “region” as a locality with a social characteristic which is similar to a group of people (language, religion, ethnicity, culture). Although how the region is allocated, how large the region is, the most common of the concept of “region” is that the region has certain boundaries and region is a space where each activity is interrelated.

A region is a system that consists of interactive relationships of components with geographic, technical, economic and social contacts inside the system as well as outside the system. Regions have different sizes. The existence of the region is objective and historical. The size and number of regions varies according to development stages of the country. The region exists because of the development requirements of the national economy. The objective of the region is concretized through the principles set by the people. The region is the foundation for planning strategies, territorial development plans as well as for managing socio-economic development processes in each region of the country.

In Germany, the concept of region can be presented differently for the purposes of policy. And the region has different angles:

- From a State perspective: a region is an inter-communal economic space (equivalent to a district) and some cities in the State which have similar socio-economic characteristics.

²⁰ To assess the completion of at least 75% of the list of major projects in the period of 2016-2020 for collaborating the investment and development.

²¹ To assess the indicator of the achievement of over 80% of the contents of collaboration in training human resources.

- From a Federal perspective: a region is an economic space that is inter-communal or even a state. Currently, the Federal Republic of Germany focuses primarily on supporting the new states (the former German Democratic Republic).

IV.2. The need for regional development collaboration between provinces

According to studies in Germany²², the development coordination among provinces in Germany is absolutely necessary for a number of reasons:

- Population changes: this is reflected in the decline of population and the increasing proportion of old people, and thus there is the risk of reducing the economic potentials and budget revenues in many provinces. The infrastructure in these areas has been built on a larger scale so that their usefulness will be declined as a result and lead to an increase in the actual costs and average costs of using these infrastructures. Increasing the cost of using the infrastructure can increase the number of migrants leaving the region and the process will continue to replicate in a new cycle.
- Financial limitation: the limitation of financial resources requires the efficient and effective use of these resources to ensure and maintain long-term operational capacity of provincial authorities in the implementation of the task assigned.
- Increase in competition: the increase in competition among regions, especially competition through technological innovation, on the one hand facilitating the linkage between provinces; on the other hand, provinces need to modernize their infrastructure. These factors have forced the formation of a new model, not only regional development coordination but also inter-regional development coordination.
- Formulation of comprehensive and complex tasks: provinces in a region face overall and complex tasks that leads to the interactional and interdependent relationship; for example in environmental protection, climate changes or energy, the infrastructure modernization and the increasing complexity of the legal framework (for specialized laws, the law of the European Union) requires provincial governments to have specialized knowledge but almost all provinces do not have available officers and resources to implement these.
- People's desire for the operation of provincial governments: people are always looking forward to an improvement in the performance of provincial governments in order to create more favourable conditions for individuals and organizations in the society. For example the formation and development of e-government will require the government to spend more and thus the collaboration between provinces can significantly reduce these costs.

All the problems mention above show that the collaboration among provincial authorities will be more effective and better meet the demands of current development. In the process of development, each province, on any scale, cannot carry out all necessary works, if a province undertake all tasks, the effectiveness will be low. Therefore, development collaboration between provinces in the performance of their tasks, whether providing public service or deploying the measures to encourage economic development is necessary. The most important premise to maintain and improve the effectiveness of this linkage is to create a “common property” of the provinces, to create conditions for provinces to exploit and use those common properties.

IV.3. Regional coordination mechanisms

IV.3.1. The goal of regional development coordination

The overall objective of regional development coordination includes:

- Narrowing the development gap between regions; and
- Developing the regional socio-economic status on the basis of regional comparative and competitive advantages.

And the regional development coordination mechanisms are established to aim to:

- Perform common tasks: Some issues and tasks, due to their nature, cannot be solved in a certain space, such as environmental protection, climate change or energy issues. These can only be resolved when provinces (even regions, countries) collaborate with each other.
- Optimize, rationalize and save in providing public services: each province, especially small province cannot undertake the assigned tasks due to limited budget. Some public services, if undertaken by a province, will be ineffective, costly and unreasonable like intra-regional public transport services, education for disabled children, hospitals, etc.

IV.3.2. Forms of regional development collaboration

There are different forms of intra-regional linkages, even in one state:

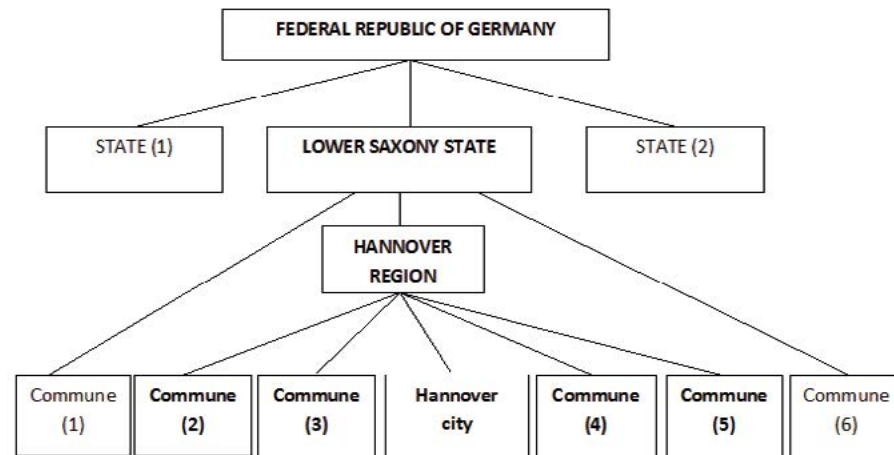
(1) Forming an administrative region with relatively sufficient decentralization

In December 2001, there appeared the needs of the local level²³ to reform and to set up an apparatus to solve the issues that cannot be addressed by the local level, with the pressure of Hannover city's leaders, neighbouring local leaders and the consent of the people, the Congress of Lower Saxony State promulgated the Hannover region's Act.

²⁰ Central Institute for Economic Management (2011): <http://www.ciem.org.vn/tin-tuc/3451/bao-cao-khao-sat-lien-ket-giua-cac-dia-phuong-trong-phat-trien-kinh-te-vung-tai-cong-hoa-lien-bang-duc?news-group=%C4%90i%E1%BB%81u%20tra%20kh%E1%BA%A3o%20s%C3%A1t>

²⁰ Local level in the Federal Republic of Germany means as commune or inter-commune

Figure 3 Hannover region's organizational structure



Source: CIEM (2011)

This model is a relatively new and unique in Germany. The basis for the formation of Hannover region is the Law of Lower Saxony State. According to this Law, the Hannover region is almost an independent administrative level between the State level and the local level (city, commune).

At the regional level, people elect representative council (similar with People's Council) for period of 5 years and regional president for period of 8 years. The council has 85 members; the president is a member of the Regional council and has the right to vote. The president has powers and is responsible for the whole administration apparatus.

Organizational structure of the Hannover administrative region's apparatus is quite simple, includes regional president and four departments, with about 2,000 officers. In addition, there are 14,000 officers working in other organizations such as hospitals, transportation sector, waste treatment sector, etc. are also under the regional management of the region. These agencies operate under the Public Law.

The tasks of the regional government are set out in the Hannover region's Act, in which the most important tasks are what local level cannot implement effectively such as intra-regional transportation, encouraging economic development, vocational training, etc. To carry out these tasks, the region has a budget of nearly EUR 1.5 billion per year, of which the largest expenditure is for social security and followed by public transport.

Regional budget revenues includes: (1) contributions from localities; and (2) supports from the State. The region also receives supports from the Federal Government and the EU through relevant programs. The region does not have direct revenues from taxes so that it is difficult to influence its revenues.

(2) Forming an administrative region towards "deconcentration"

Besides the new model as the Hannover region, there is a traditional form in Germany which is the "regional representative" model. This "administrative level"

can be considered as a State's representative office in a region (deconcentration form of decentralization); this is not an elected authority. In fact, this is only a state's representative office.

This "administrative level" currently exists only in a number of large states and the issue of maintaining continuously this "administrative level" is debatable. The trend of developing the "regional representative model" is also different from states to states. This model has been strengthened since 2005 in the State of Baden-Wuerttemberg and since 2007 in the State of North Rhine-Westphalia: More agencies were set up in this "administrative level" such as the environmental department, the labor protection department, etc.). Meanwhile, many other states abandoned this model, for example Rheinland-Pfalz state (since 2000), Sachsen-Anhalt state (since 2003) and Lower Saxony State (since 2005), Brandenburg state and Mecklenburg-Vorpommern und Thüringen state (former German Democratic Republic) removed the administrative level immediately after the unification of Germany (1990), and the two states of Schleswig-Holstein und im Saarland have not had this administrative level because these areas are too small.

Currently, this administrative level exists in 5 states, specifically as follows: (i) Baden-Württemberg with four regions: Freiburg, Karlsruhe, Stuttgart, Tübingen; (ii) Bayern - with seven regions: Oberbayern, Niederbayern, Oberfranken, Mittelfranken, Unterfranken, Oberpfalz, Schwaben; (iii) Hessen - with three regions: Darmstadt, Gießen, Kassel; (iv) Nordrhein-Westfalen - with 5 Bezirksregierungen: Arnsberg, Detmold, Düsseldorf, Köln, Münster and (v) Sachsen - with 3 Direktionsbezirke: Chemnitz, Dresden, Leipzig. (Particularly in Bayern state, seven regions mentioned above has an elected body (similar to the People's Council, elected at the same time as the State Congress).

(3) Establishing associations with the participation of localities in the region

Some German states establish a non-governmental organization in the form of an association with the aim of linking the localities. The Munich region established quite a number of associations for serving this purpose.

Regional Planning Association Munich

- Members: 185 communes and cities; 18 inter-communes and Munchen, the state capital city;
- Chairman: alternate between capital, inter-commune and communes (change every 2 years);
- Period: 6 years;
- No professional staff, based only on the support of the district government of Upper Bavaria and the Bavaria state government²⁴.

²⁴ It is not good that through support, they may have unintended consequences in the preparation process. Other states: The board also has an office and staff to carry out its work, and the officers follow the management of the board.

The duties of the association include:

- To handle tasks of regional planning topics beyond the scope of a commune or inter-commune. If one locality can affect the neighboring localities.
- Professional topics: residential areas, transportation roads, business, energy, relaxation.
- In addition to regional planning associations, there are other organizations in the region such as:
 - + Associations for regions outside Munchen;
 - + IVT Association: ensuring the need for relaxation for the people;
 - + MVV Association: ensure the need to rest;
 - + Dachauer Society: Association for Landscape Protection, Wetlands;
 - + Chamber of Commerce and Industry;
 - + European Metropolitan Area in Munchen: for planning in the southern part of Bavaria.

IV.3.3 Tools for the linkage

(1) Master planning

Master planning is one of the most important tools for linking localities in the development process to ensure consistency and relevance in the development of the whole region.

In master planning, the Federal Government has only introduced a Law as a framework including development orientations such as growth, healthcare and environmental protection, etc. while Germany does not have a federal master plan. Based on these orientations, regional development master plan of each state will be built. The state also sets out the development directions, and a detailed plan is designed. The region are responsible for implementing the development master plans and plans. The region also designs inter-commune plans while the commune level also built their plans. Each state has the responsibility to make decisions on master planning; Lower Saxony State transfers this task to the regional and inter-commune authorities.

Master planning tools are divided into hard tools and soft tools.

- *Hard tools* provide mandatory goals. After defining the objectives, each agency (city and commune) build a plan for the land use, which must be approved by the region. Thus, local levels (communes, cities) have the right to formulate land use plans for their purposes. In addition, the region has the right to disallow the local governments to implement the master plan if it affects the regional common interest, but it rarely happens.
- *Soft tools*: master planning is implemented through negotiation, exchange, coordination or contracts to implement regionally and locally common goals.

The process of master planning always requires to consulted local people and in

general, there are fierce debates to gain supports of local people. Regional master plans only provide the orientations with indirect impacts, only local master plans make direct impacts. As defined in the regulation, local master plans have to be in accordance with regional and state master plans. This is a relatively complex process. If there local master planning is not in accordance with regional and state master planning, the region can require the adjustment. In fact, there are some situation that the local governments continuously maintain their master plans.

(2) Development coordination between localities to establish a public, non-profit corporation in Lower Saxony State

a. Hannover region

➤ Financial tools to support the business.

In order to support enterprises, in 2003 the regional government established Hannover Impuls with the task of economic development acting as a business enterprises. It was granted a budget of EUR 60 million in 10 years. This establishment is supported by all political parties.

To create the competition, there is an initiative to support start-ups. In addition, the company manages the fund of EUR 5 million of the European Union, EUR 5 million of the Hannover Region. The main objective of this fund is to support SMEs through Hannover Impuls. Recently, this company has provided funding of EUR 1.4 million and has attracted 14.8 EUR million of investment.

In addition, there is a program to help young people in setting up technology enterprises. It is special that these grants are considered as a contribution capital, and after a certain period of time they will have to be returned to invest in other new businesses. The state also provides funds to a number of small-scale funds aimed at providing financial supports for agricultural, rural development and labor in order to maximize the region's advantages.

In addition, the Hannover region has three other funds:

- Regional Development Fund: Support for small projects;
- Sozialfonds Fund: Support for training of workers.
- Agrafonds Fund: Support for rural development.

The European Union also has regional support programs in which the Hanover region is supported of about EUR 500 million in seven years from 2007 to 2013. Of which 35 percent of the development assistance funds will be transferred to the commune level who is in charge of implementing projects.

When an enterprise invests in difficult areas, for example in former East Germany, the European Union will support capital expenditures up to 50 percent of total investment. This fund will be transferred directly to the enterprise; however, if the enterprise does not implement the project, or does not create a new employment, it will have to pay back the funds that European Union, Federal government or State provided.

➤ *Development of infrastructure in disadvantaged areas.*

Although the State does not provide fund for the intra-city transportation company which is financially provided by Federal government, there are a number of situations that the State will provide funds to implement projects which are close to projects undertaken by the company in disadvantaged areas. For example, the investment in deep water ports of the intra-city transportation company, the state spent EUR 25 million to build some roads near the port to link traffic networks.

➤ *Other tools to support the creation of a business in the region:*

- With the support for setting up a business: The company has built up an online portal to support business registration and business activities.
- Creating emulation programs so that business creators can present their initiatives with a prize of EUR 40,000 in the form of a 12 month scholarship. This program has been holding annually since 2003 to encourage a large number of businesses to participate.
- Business development policies for women: to establish an in-depth research center for gender development; and to provide supports for women to create businesses.
- To support enterprises in improving technologies through consulting services or funding.
- To build a database system to support business activities. Enterprises can update information on supply and demand of different goods by assessing the system.

➤ *Tools to attract overseas enterprises:*

Tools to attract foreign enterprises from India, Russia or Turkey:

- Supports in applying permanent residence.
- Developing market research and analysis programs for these enterprises (POMAP).
- Marketing researches.
- Creating incentive schemes for enterprises which intend to work in the region with offices for free in one year and other supporting services.

b. Hildesheim region

While Hannover city has been linked with the regional communes to form the Hannover region, the Hildesheim city has been linked with the neighbouring communes of Hildesheim (also located in Lower Saxony State) in another form. The Hildesheim commune has about 300,000 inhabitants, of which the Hildesheim city has 100,000 inhabitants and the other 18 communes have more than 200,000 inhabitants.

Encouraging economic development is always not a simple task, especially for small localities. Therefore, the Hildesheim inter-communes has been collaborated to

carry out this task. The goal of Hildesheim's linkage with the communes is to create an economic incentive for Hildesheim and the regional communes. They established a 100 percent non-profit limited liability company, Hildesheim (Hildesheim Economic Development) known as HR.

HR was established by the Hildesheim Savings Fund as a founding member with the participation of Hildesheim district, 19 localities and four People's banks in Hildesheim region. Initial capital was contributed by localities accounting for two thirds of the total capital and the remaining was from savings fund and four People's bank. The supervisory board, roughly equivalent to the board of directors in Vietnam is headed by the district chairman and had eight other members with two representatives from the two largest cities, two representatives from the other 17 communes and two representatives from Savings fund and Banks. The supervisory board holds conferences three times a year to monitor company activities and to determine the direction of HR development. Members nominated to the board are individuals from the administrative area who are not allowed to be politicians to avoid politicizing economic incentives tools.

The company is responsible for providing non-financial support services to enterprises. The company is represented in all communes in the region and has an economic incentive office in the Hildesheim city. This company has duties:

- To increase regional competitiveness compared to other regions;
- To create favourable conditions for enterprises to attract investors into the region;
- To support SMEs in applying for licenses or consulting for business opportunities compared to large enterprises.

The subjects receiving HR's support are SMEs or start-up businesses and support activities are free. Therefore, the scope of HR consultancy is limited to consulting services which does not compete with other private enterprises. HR's activities are in three areas: support for start-up businesses, enterprise support services and investment attraction, including: (i) *support for start-up businesses*: to organize seminars, workshops, around 40-50 seminars with 500-600 participants per year; to provide the guidance to start-up businesses and business planning; to organize forums for young enterprise; to support for student businesses; (ii) *enterprises support services*: to provide consultation on applying for permits and selection of business area; to support to look for financial supports (investment programs), in 2008, HI-Invest was established to support enterprises in expanding their capacity and creating more jobs (disbursed almost in 2013); to manage the innovation process (in collaboration with both Salzgitter district and Payner district to take advantage of the experts and to create more relationships, for example with Uni Braunschweig); to manage the collaboration and relationship: creating specialized networks, for example, information technology networks; (iii) *investment attraction*: providing regularly the information on the area (with 3 publications to provide information), participating in trade fairs to introduce the region; developing infrastructures: for broadband network,

mainly focusing on capacity and transmission speed.

IV.4. Some experiences for Vietnam to promote effective regional coordination

Some experiences for Vietnam to promote effective regional coordination can learn from Germany as follows:

- To institutionalize the regional development goals: The German constitution sets the goal of regional development coordination is to narrow the development gap between regions. This is the most important basis for Federal Government, state and local governments to issue regulations to support the implementation of regional development coordination.
- Forms for regional development coordination and supporting tools: The form of regional coordination may be at different levels of decentralization, possibly an authority with sufficient rights, which is elected or based on a Law or may be just an organization representative of the Central Government in the region with more limited powers but different forms should provide important supporting tools which are frequently used in the implementation of regional coordination, this is *financial supports for infrastructure development or business kick-offs supports in underdeveloped areas*.
- Scope and contents of coordination: The scope of coordination activities is always limited within the areas or issues that each locality cannot undertake individually or will be ineffective if each locality undertake themselves. Therefore, the most important content to maintain the development coordination between localities is to have a common property and the localities have the right to exploit this property to serve their needs and must contribute to the operation of common properties such as companies to promote economic development, common hospitals, common vocational schools, common bus companies, etc.. Common property may exist in various legal forms to be in accordance with regional situation or development period, which may be a non-profit organization (or enterprise), a profit organization, a local state owned organization or may be in a form of public-private partnership (PPP).

V. Recommendations

On the basis of assessing the current situation of regional development coordination of key economic regions in Vietnam recently, the report proposes a number of solutions to raise the efficiency and effectiveness of the coordination mechanisms for the development of key economic regions in corresponding to the contents analysed above.

(a) Contents of coordination

- To develop and implement regional strategic plans, firstly towards the formation of common property, such as building the regional waste treatment plants in the Mekong River Delta Key Economic Region for regional linkages in order to promote the advantages as well as solve the existing regional problems.

- To issue Decrees and guidelines for the development and implementation of the Law on Master Planning in accordance with the implementation roadmap to ensure the strict supervision of the implementation of regional master plans.
- To issue criteria and guidelines for public investment projects implementation to select public investment projects to improve regional coordination in key economic regions.
- To issue a stronger policy, such as a law or a decree on the development of key economic regions to make these regions as driving forces for the growth and to support and spill over other regions.
- To carry out specific regional allocation without overlapping in order to facilitate the implementation of regional policies. The regional allocation will be based on the National Master Plan which is expected to be passed by the National Assembly in 2020. The regional allocation must tend to promote the comparative advantages of each province and the whole region and to create coordination in the region and to support each other effectively.

(b) Form of coordination

- To issue constraints in the implementation of regional development coordination to be benefited from the state budget when localities implement regional linkages. Priorities to benefit from state budget when implementing regional linkages is on the basis of national interest, regional interests and provincial interests. At the same time, the bonus and punishment mechanism and monitor and evaluating mechanism on the implementation of regional commitments and collaboration plans should be issued.

(c) Regional development coordination organization

- To strengthen the regional council's structure towards attracting all stakeholders, especially the enterprises in drafting and implementing regional development coordination contents.
- The regional organizational structure must be empowered sufficiently to make decisions, especially to approve the master plan and plans and to manage and allocate the regional development funds with regional development fund. Specifically, all provincial project proposals related to central management that is under central management or under both central and local management must be submitted to the regional council for approval. The process ensures a number of steps:
 - i. Annually, provinces build the proposal on the compulsory collaboration projects and activities and then submit to the regional councils.
 - ii. The Regional Council synthesizes and selects projects listed in the provincial proposals and identifies priorities for different sectors based

²⁵ Similarly, Ministries and branches will also submit proposals on project and priorities to the Steering Committee for consideration and approval.

on national, regional and sectoral socio-economic development master plans or proposes to adjust and add projects into regional and sectoral master plans and submit to the Steering Committee for approval²⁵.

- iii. The Steering Committee will evaluate proposals of each region and determine the prioritized projects in accordance the national socio-economic development strategies, master plans and plans.
- iv. Regional Councils and provinces implement the assigned projects. In cases, many provinces and the Regional Council disagree with the decision of the Steering Committee on a specific project, Regional Councils can propose the Steering Committee to consider and change the project in terms of location or scale but it is not allowed to increase the total capital for each sector.

(d) Financial mechanisms to support regional development coordination

- To promulgate legal regulations to ensure the revenue sources to implement regional development coordination contents corresponding to regional expenditure tasks. In the current institutions, non-budget financial fund can be formed from sources such as contributions from the central and provincial budget, regional enterprises and organizations and individuals. The contribution from the state budget is not the additional resources; that is to reallocate resources allocated previously to provinces to the implementation of the regional tasks.

(e) Information to support regional development coordination

- To build a database system for key economic regions to support planning activities and supervision of regional activity implementation as defined in Decision no. 941/QĐ-TTg.

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